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DEPT FOR E, EAP/MTS, EAP/EP, EEB/IFD/OMA, E/CBA

TREASURY FOR IA/MALACHY NUGENT AND TRINA RAND

COMMERCE FOR 4430/KELLY

DEPARTMENT PASS EXIM BANK VP MORIN

DEPT PASS USTR WEISEL, EHLERS

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SUBJECT: NEW INDONESIAN CIVIL AVIATION LAW PAVES THE WAY FOR EX-IM FINANCING FOR HUGE BOEING SALE

REF: Jakarta 1262

¶1. Summary. The Indonesian parliament passed a new civil aviation law on December 17 that paves the way for Ex-Im bank to provide financing for the sale of billions of dollars worth of Boeing aircraft to Indonesian air carriers. The new law implements the provisions of the Cape Town Convention on International Interests in Mobile Equipment. Embassy and Ex-Im worked extensively with the Indonesian parliament and government to get this outcome. End Summary.

¶2. The Indonesian parliament approved a new civil aviation law on December 17, which specifically implements the provisions of the Cape Town Convention (CTC), an international treaty designed to standardize the transactions of moveable property, particularly aircraft and aircraft engines. Although Indonesia had previously issued a Presidential decree implementing the CTC, Ex-Im's local counsel determined that the decree did not fully implement the convention. Without full CTC implementation, Ex-Im was unable to proceed on a \$1 billion financing agreement for the initial sale of 30 Boeing 737-900 Extended Range aircraft to Indonesia's Lion Air. Lion Air has total orders for 178 737-900ERs with purchase rights for an additional 50, making them Boeing's largest customer for the craft.

¶3. In a series of meetings between February and June, Embassy met with parliamentarians, Ministry of Transportation officials including the Minister, individual airlines, and the local air carriers association to encourage the parliament to include specific language in the new civil aviation bill to implement the CTC. During these meetings, the local air carriers association requested legal assistance to draft appropriate implementing language (reftel).

¶4. Ex-Im responded by hiring local counsel to advise the the Indonesian working group (consisting of the local air carriers association, parliament, and the Ministry of Transportation) in drafting legislation that would be acceptable to parliament while at the same time satisfying Ex-Im's requirement that the CTC be fully implemented. The December 17 law was the result of this collaborative effort.

¶5. The new law paves the way for possible Ex-Im financing not only of Lion Air's substantial orders. National carrier Garuda announced earlier this year the purchase of four Boeing 777-300ERs on top of their existing orders of twenty-five 737-800s and seven 777-300ERs. In addition, there are several other possible purchases of Sikorsky helicopters that may qualify for Ex-Im financing now that the Cape Town Convention is implemented in Indonesia.

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